

CITY OF ALGONAC
St. Clair County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2008

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* City of Algonac	County* ST. CLAIR	Type* CITY	MuniCode* 74-2-010
Opinion Date-Use Calendar* Nov 11, 2008	Audit Submitted-Use Calendar* Nov 28, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 2,749,795.00
General Fund Expenditure:	<input type="checkbox"/> ? \$ 2,680,923.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> ? \$ 960,881.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name) Glen	Last Name* McBride	Ten Digit License Number* 1101008018		
CPA Street Address* PO Box 26, 1115 S. Parker St	City* Marine City	State* MI	Zip Code* 48039	Telephone* +1 (810) 765-4700
CPA Firm Name* McBride, Manley & Miller PC	Unit's Street Address* Po Box 26, 1115 S. Parker St	Unit's City* Marine City	Unit's Zip* 48039	

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CITY OF ALGONAC

Management's Discussion and Analysis

Using this Annual Report

As management of the City of Algonac, we offer readers of the City of Algonac's financial statements this narrative overview and analysis of the financial activities of the City of Algonac for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here and contact City Administration at 810-794-9361 if you have any questions. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Algonac exceeded its liabilities at the close of the most recent fiscal year by \$15,781,554 (net assets). Of this amount, \$2,054,495 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by 2.5% from a year ago from \$15,390,120 to \$15,781,554. Approximately 69% of this increase is attributable to a decrease in long term obligations.
- At the close of the current fiscal year, the City of Algonac's governmental funds reported combined ending fund balances of \$2,071,209, an increase of \$165,646 in comparison with the prior year. Of this amount, \$1,776,899 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$895,192 or 33.4% of total general fund expenditures. The government hopes to maintain at least 15% available.
- The City of Algonac's total debt decreased by \$372,504 (9.8%) during the current fiscal year as the City retired its payment related to the purchase of the BS&A software and continued to make required payments on all outstanding bonds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Algonac's basic financial statements. The City of Algonac's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Algonac's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Algonac's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Algonac is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Algonac that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Algonac include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Algonac include water production and sewerage treatment services.

The government-wide financial statements include not only the City of Algonac itself, but also the Downtown Development Authority, known as a component unit. Financial information for the component unit is reported separately from the financial information presented for the City of Algonac itself.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Algonac uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Algonac can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements; however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Algonac maintains six individual governmental funds. Information is presented separately for each major fund and combined for the minor funds in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. Individual fund data for the minor funds is found in the supplementary information.

The City of Algonac adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds are used by the City of Algonac to provide the same type of information as the government-wide financial statements, only in more detail. Two types of proprietary funds are used. Enterprise funds are used to report the same functions as presented as business-type activities in the government-wide financial statements. The Water Fund and Sewer Fund are two proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Algonac's various functions. The City of Algonac uses the Motor Pool Fund to account for its vehicles purchased after January, 2006. Because the Motor Pool Fund provides a benefit to governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held by the government for the benefit of outside parties. Fiduciary funds are not reflected in the government-wide financial statement because the fund's resources are not available to the City of Algonac.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes can be found starting on page 16.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Algonac, assets exceeded liabilities by \$15,781,554. Of that amount, \$11,681,539 is invested in capital assets and is not available for future spending. In addition, \$2,045,520 are net assets that are subject to external restrictions on how they may be used, leaving only \$2,054,495 to meet the needs of the citizens. The government's net assets increased by \$368,871 during the current fiscal year. Sixty-nine percent of this decrease resulted from a decrease in long term obligations, net of current debt.

City of Algonac - Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 2,429	\$ 2,229	\$ 2,036	\$ 2,090	\$ 4,456	\$ 4,319
Noncurrent Assets	3,080	3,128	11,677	11,747	14,757	14,875
Total Assets	5,509	5,357	13,713	13,837	19,213	19,194
Long-Term Debt Outstanding	68	105	2,848	3,074	2,916	3,179
Other Liabilities	146	227	379	375	516	602
Total Liabilities	214	332	3,227	3,449	3,432	3,781
Net Assets						
Invested in Capital Assets - Net of Debt	3,080	3,091	8,601	8,457	11,681	11,548
Restricted	1,136	861	910	771	2,046	1,632
Unrestricted	1,079	1,073	975	1,160	2,054	2,233
Total Net Assets	\$ 5,295	\$ 5,025	\$ 10,486	\$ 10,388	\$ 15,781	\$ 15,413

Governmental activities. The City's total governmental revenues increased by approximately \$105,000 primarily due to increased property tax collections. Expenses of the governmental activities decreased by \$209,000 over those of the previous year, primarily due to decreases in general government and recreation and culture expenditures.

Business-type activities. The City's business-type activities consist of the Water and Sewer Funds. We provide water and sewer treatment to all City residents. We experienced a decrease in our net operating profit. This was primarily due to a decrease in user charges as a result of fewer gallons produced and sold.

City of Algonac - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for Services	\$ 521	\$ 548	\$ 1,458	\$ 1,480	\$ 1,979	\$ 2,028
Operating Grants and Contributions	386	324	-	-	386	324
Capital Grants and Contributions	10	56	-	-	10	56
General Revenues						
Taxes and Payments in Lieu of Taxes	1,653	1,555	149	167	1,802	1,722
State-Shared Revenues	423	423	-	-	423	423
Unrestricted Investment Earnings	124	126	40	57	164	183
Gain/Loss on Sale of Assets	-	8	-	-	-	8
Transfers	27	-	17	-	44	-
Other	22	21	-	-	22	21
Total Revenues	3,166	3,061	1,664	1,704	4,830	4,765
Program Expenses						
Legislative	14	18	-	-	14	18
General Government	454	550	-	-	454	550
Public Safety	1,262	1,214	-	-	1,262	1,214
Highways and Streets	103	225	-	-	103	225
Public Works	635	655	-	-	635	655
Planning and Economic Development	6	11	-	-	6	11
Recreation and Cultural	320	271	-	-	320	271
Other	84	160	-	-	84	160
Water and Sewer	-	-	1,566	1,591	1,566	1,591
Transfers	17	-	-	-	17	-
Total Expenses	2,895	3,104	1,566	1,591	4,461	4,695
Change in Net Assets	\$ 271	\$ (43)	\$ 98	\$ 113	\$ 369	\$ 70

Financial Analysis of the Government's Funds

As noted earlier, the City of Algonac uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Algonac's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance serves as a useful measure of a government's net resources available for spending at the end of a fiscal year. Generally, a government should strive to have about 15% of its expenditures available in unreserved, undesignated fund balance. The City of Algonac ended the current fiscal year with an unreserved, undesignated fund balance of \$895,192 in our general fund. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchases of the prior period.

The General Fund pays for most of the City's governmental services. The most significant are police and public works, which incurred expenses of approximately \$1,462,074. These two services are supported by general tax revenues of the City and State revenue sharing. In addition, the General Fund expended approximately \$351,526 on fire. These three areas represent approximately 68% of the General Fund's total expenditures.

The other major funds of the City are the Major Street Fund and Local Street Fund. These funds are funded by grants from the State of Michigan for road construction and maintenance. Each fund had rather large unreserved, undesignated fund balances which can be used for future road projects. The City is saving money in the Major Street Fund to reconstruct State Street.

Proprietary Funds. The City of Algonac's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Fund amounted to \$272,769 and those of the Sewer Fund amounted to \$702,341. The total net assets of the Sewer Fund was relatively unchanged from the prior year, showing a slight decrease; however, the total net assets of the Water Fund increased by \$103,482. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Algonac's business-type activities.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The total budgeted expenditures for the General Fund were increased by approximately 4.3% during the year. The City's departments overall stayed within the budget, resulting in total expenditures \$68,044 less than those budgeted. The General Fund's fund balance increased from \$902,009 a year ago to \$960,881 at June 30, 2008. This increase was primarily a result of increased property tax collections totaling over \$97,000 and a \$56,000 savings in insurance.

Capital Asset and Debt Administration

Capital assets. The City of Algonac's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$14,728,962 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles, and infrastructure. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements. The total City of Algonac's acquisition of capital assets for the current fiscal year was \$187,051 for governmental activities and \$297,213 for business-type activities.

Major capital asset events during the current fiscal year included the following:

- New sidewalks were installed along State Street and Pointe Tremble in the amount of \$115,740.
- A new furnace valued at \$15,485 was installed at the library.
- A walking path at Lion's Field was started with expenses to date totaling \$10,655.

Additional information on the City of Algonac's capital assets can be found in Note 5 on page 24 of this report.

Long-term debt. At the end of the current fiscal year, the City of Algonac had total bonded debt outstanding of \$3,041,427. All but \$203,000 comprises debt backed by the full faith and credit of the government.

The City of Algonac's total debt decreased by \$283,443 during the current fiscal year as the City maintained its regular debt payment schedule without issuing any new debt.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation for the City of Algonac is \$15,158,855.

Additional information on the City of Algonac's long-term debt can be found in Note 6 beginning on page 26 of this report.

Economic Factors and Next Year's Budgets and Rates

- The downturn in the Michigan economy has led to an increase in home foreclosures in Algonac.
- Inflationary trends for energy and utilities continue to rise at levels not seen since the 1980's.

These two factors were considered in preparing the City of Algonac's budget for the 2008-09 fiscal year. The City's budget for the year ending June 30, 2009, calls for no change in property tax rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions; however, the City did adjust its water and sewer rates by the rate of inflation and have begun to increase sewer and water debt charges in an effort to relieve the portion of property taxes regularly assessed to make annual debt payments.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$895,192. The City of Algonac did not appropriate any use of fund balance for the 2008-09 fiscal year.

Requests for Information

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City Clerk/Treasurer at 805 St. Clair River Drive, P.O. Box 454, Algonac, Michigan, 48001.



McBride, Manley & Miiller P.C.

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

INDEPENDENT AUDITORS' REPORT

November 11, 2008

Honorable Mayor and City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CITY OF ALGONAC, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Algonac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Algonac, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008, on our consideration of the City of Algonac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algonac's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



MCBRIDE, MANLEY & MÜLLER P.C.
Certified Public Accountants



City of Algonac
Statement of Net Assets
June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,537,437	\$ 448,644	\$ 1,986,081	\$ 29,618
Investments	299,007	--	299,007	--
Restricted cash	232,951	503,790	736,741	--
Accounts and assessment receivable	43,428	304,273	347,701	(808)
Due from State	181,095	--	181,095	--
Due from other units of government	41,745	40,763	82,508	--
Prepaid and other assets	83,110	4,591	87,701	--
Inventory	696	--	696	--
Other assets	--	2,115	2,115	--
Restricted receivables and deposits - expendable	--	732,391	732,391	--
Fixed assets net of accumulated depreciation	3,080,141	11,648,821	14,728,962	--
Restricted nonexpendable cash	--	28,000	28,000	--
<i>Internal Balances*</i>	9,317	--	--	--
Total Assets	5,508,927	13,713,388	19,212,998	28,810
Liabilities				
Accounts payable	61,870	107,337	169,207	--
Accrued wages and benefits	57,613	9,316	66,929	--
Due to other units and taxpayers	6,411	--	6,411	198
Accrued interest	--	25,025	25,025	--
Current portion of long-term debt	--	227,657	227,657	--
Restitution reimbursement payable	15,564	--	15,564	--
Accrued vacation pay	3,948	--	3,948	--
Non-adjudicated funds	4,330	--	4,330	--
Long-term obligations, net of current portion	--	2,813,770	2,813,770	--
Accrued sick pay	63,842	34,761	98,603	--
<i>Internal Balances*</i>	--	9,317	--	--
Total Liabilities	213,578	3,227,183	3,431,444	198
Net Assets				
Invested in fixed assets net of related debt	3,080,141	8,601,398	11,681,539	--
<i>Restricted for:</i>				
Historic preservation	228,621	--	228,621	--
Inventory and prepaid expenses	65,689	--	65,689	--
Police enforcement	8,693	--	8,693	--
Highways and streets - Act 51	832,820	--	832,820	--
Asset replacement - expendable	--	909,697	909,697	--
<i>Unrestricted</i>	1,079,385	975,110	2,054,495	28,612
Total Net Assets	\$ 5,295,349	\$ 10,486,205	\$ 15,781,554	\$ 28,612

* Amounts have been eliminated in total column



**City of Algonac
Statement of Activities
For the Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 14,364	\$ --	\$ --	\$ --	\$ (14,364)	\$ --	\$ (14,364)	\$ --
General government	453,640	180,693	5,900	9,881	(257,166)	--	(257,166)	--
Public safety	1,281,525	53,508	88,889	--	(1,119,128)	--	(1,119,128)	--
Public works	635,409	216,265	--	--	(419,144)	--	(419,144)	--
Planning and economic development	6,392	1,680	--	--	(4,712)	--	(4,712)	--
Recreation and cultural	320,225	55,971	23,552	--	(240,702)	--	(240,702)	--
Insurance	71,736	--	--	--	(71,736)	--	(71,736)	--
Other	12,028	--	--	--	(12,028)	--	(12,028)	--
Highways and streets	103,127	12,670	268,074	--	177,617	--	177,617	--
Total Governmental Activities	2,878,446	520,767	386,415	9,881	(1,961,363)	--	(1,961,363)	--
Business-type Activities:								
Sewer	528,097	500,430	--	--	--	(27,667)	(27,667)	--
Water	1,037,754	957,714	--	--	--	(80,040)	(80,040)	--
Total Business-type Activities	1,565,851	1,458,144	--	--	--	(107,707)	(107,707)	--
Total Primary Government	\$ 4,444,297	\$ 1,978,931	\$ 386,415	\$ 9,881	\$ (1,961,363)	\$ (107,707)	\$ (2,069,070)	--
Component Units								
Total Nonmajor Component Units	\$ 48,089	\$ --	\$ --	\$ --	--	--	--	(48,089)
Total Component Units	\$ 48,089	\$ --	\$ --	\$ --	--	--	--	(48,089)
General Purpose Revenues and Transfers:								
Revenues								
Property taxes		1,596,900	--	--	1,596,900	--	1,596,900	--
Payments in lieu of taxes		56,172	--	--	56,172	--	56,172	--
Distributions from State		423,193	--	--	423,193	--	423,193	--
Miscellaneous revenue		1,003	--	--	1,003	--	1,003	422
Interest revenue		124,033	--	--	124,033	39,484	163,517	1,776
Transfers from component units		28,648	--	--	28,648	--	28,648	--
Equipment rental		21,195	--	--	21,195	--	21,195	--
Debt service taxes		--	--	--	--	149,315	149,315	55,177
Transfers		(17,005)	--	--	(17,005)	17,005	--	--
Total General Revenues and Transfers		2,232,137	205,804	98,097	2,437,941	205,804	2,643,745	57,375
Change in Net Assets		270,774	98,097	98,097	368,871	98,097	466,968	11,286
Net Assets at Beginning of Period - Restated (Note 16)		5,024,575	10,388,108	10,388,108	15,412,663	10,388,108	25,794,771	17,326
Net Assets at End of Period		\$ 5,295,349	\$ 10,486,205	\$ 10,486,205	\$ 15,781,554	\$ 10,486,205	\$ 26,267,759	\$ 28,612

See accompanying notes

**City of Algonac
Balance Sheet
Governmental Funds
June 30, 2008**

	<u>Special Revenue</u>			<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Governmental</u>	<u>Governmental</u>
				<u>Funds</u>	<u>Funds</u>
Assets					
Cash and cash equivalents	\$ 502,731	\$ 503,034	\$ 285,873	\$ 63,925	\$ 1,355,563
Investments	299,007	--	--	--	299,007
Restricted cash	--	--	--	232,951	232,951
Accounts and assessment receivable	43,428	--	--	--	43,428
Due from State	137,182	31,481	12,432	--	181,095
Due from other units of government	41,745	--	--	--	41,745
Prepaid and other assets	64,993	--	--	649	65,642
Inventory	696	--	--	--	696
Due from other funds	13,907	--	--	--	13,907
Total Assets	\$ 1,103,689	\$ 534,515	\$ 298,305	\$ 297,525	\$ 2,234,034
Liabilities					
Accounts payable	\$ 51,889	\$ 418	\$ 2,041	\$ 7,522	\$ 61,870
Accrued wages and benefits	56,497	580	536	--	57,613
Due to other units and taxpayers	6,411	--	--	--	6,411
Deferred revenue	12,447	--	--	--	12,447
Restitution reimbursement payable	15,564	--	--	--	15,564
Due to other funds	--	2,229	2,361	--	4,590
Non-adjudicated funds	--	--	--	4,330	4,330
Total Liabilities	142,808	3,227	4,938	11,852	162,825
Fund Balance					
<i>Reserved for:</i>					
Historic preservation	--	--	--	228,621	228,621
Inventory and prepaid expenses	65,689	--	--	--	65,689
<i>Unreserved reported in:</i>					
General Fund	895,192	--	--	--	895,192
Special Revenue	--	531,288	293,367	36,394	861,049
Capital Projects	--	--	--	20,658	20,658
Total Fund Balance	960,881	531,288	293,367	285,673	2,071,209
Total Liabilities and Fund Balance	\$ 1,103,689	\$ 534,515	\$ 298,305	\$ 297,525	\$ 2,234,034

City of Algonac
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

Total Fund Balance - Governmental Funds	\$ 2,071,209
Net Assets of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.	294,096
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Assets.	(67,790)
Fixed assets are capitalized in the Statement of Net Assets and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.	2,967,919
Revenue deferred in governmental fund statements if not received within sixty days.	12,447
Prepaid expenses treated as assets in Statement of Net Assets, expensed in governmental fund statements.	17,468
Total Net Assets-Governmental Funds	<u>\$ 5,295,349</u>

City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue</u>			<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Governmental</u>	<u>Governmental</u>
				<u>Funds</u>	<u>Funds</u>
Revenues					
Property taxes	\$ 1,597,101	\$ --	\$ --	\$ --	\$ 1,597,101
Payments in lieu of taxes	56,172	--	--	--	56,172
Distributions from State	427,526	192,206	75,868	--	695,600
Distributions from other government	102,905	--	--	--	102,905
Licenses, permits, fines, and fees	98,007	--	--	--	98,007
Miscellaneous revenue	54,532	--	12,670	32,707	99,909
Refuse collections	216,265	--	--	--	216,265
Administrative charges	128,567	--	--	--	128,567
Contributions and reimbursements	9,450	--	--	--	9,450
Interest revenue	59,270	16,659	10,087	33,022	119,038
Total Revenues	2,749,795	208,865	98,625	65,729	3,123,014
Expenditures					
Legislative	14,364	--	--	--	14,364
General government	435,976	9,532	7,568	--	453,076
Public safety	1,276,578	--	--	--	1,276,578
Public works	648,617	--	--	--	648,617
Planning and economic development	6,392	--	--	--	6,392
Recreation and cultural	216,554	--	--	39,349	255,903
Insurance	62,577	--	--	--	62,577
Highways and streets	--	66,685	43,606	--	110,291
Other	--	--	--	12,566	12,566
Capital outlay	19,865	--	--	123,785	143,650
Total Expenditures	2,680,923	76,217	51,174	175,700	2,984,014
Excess of Revenues Over					
(Under) Expenditures	68,872	132,648	47,451	(109,971)	139,000
Other Financing Sources (Uses)					
Transfers from component units	--	--	--	26,646	26,646
Transfers from other funds	--	--	--	51,962	51,962
Transfers to other funds	(10,000)	--	--	(41,962)	(51,962)
Net Other Financing Sources (Uses)	(10,000)	--	--	36,646	26,646
Net Change in Fund Balance	58,872	132,648	47,451	(73,325)	165,646
Fund Balance at Beginning of Period	902,009	398,640	245,916	358,998	1,905,563
Fund Balance at End of Period	\$ 960,881	\$ 531,288	\$ 293,367	\$ 285,673	\$ 2,071,209



City of Algonac
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 165,646
Changes in net assets of internal service funds that are treated as enterprise fund changes in net assets in the fund level statements are treated as governmental fund changes in net assets in the entity-wide statements.	56,111
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Assets.	76,026
Accrued interest payable is accrued on Statement of Net Assets and expensed on the Statement of Activities. Interest is expensed on a cash basis on the Statement of Revenues, Expenditures, and Changes in Fund Balance.	446
Fixed assets are capitalized in the Statement of Net Assets and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.	(19,086)
Revenue deferred in governmental fund statements if not received within sixty days.	790
Prepaid expenses treated as assets in Statement of Net Assets, expensed in governmental fund statements.	(9,159)
Changes in Net Assets-Governmental Funds	\$ 270,774

**City of Algonac
Statement of Net Assets
Proprietary Funds
June 30, 2008**

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
			Total Enterprise Funds	Motor Pool Fund
	Sewer	Water		
Assets				
<i>Current Assets</i>				
Cash and cash equivalents	\$ 392,404	\$ 56,240	\$ 448,644	\$ 181,874
Restricted cash	163,742	340,048	503,790	--
Accounts and assessment receivable	148,742	155,531	304,273	--
Due from other units of government	--	40,763	40,763	--
Prepaid and other assets	263	4,328	4,591	--
Other assets	--	2,115	2,115	--
Restricted receivables and deposits - expendable	92,167	640,224	732,391	--
Total Current Assets	797,318	1,239,249	2,036,567	181,874
<i>Noncurrent Assets</i>				
Fixed assets net of accumulated depreciation	2,405,658	9,243,163	11,648,821	112,222
Restricted nonexpendable cash	--	28,000	28,000	--
Total Assets	3,202,976	10,510,412	13,713,388	294,096
Liabilities				
<i>Current Liabilities</i>				
Accounts payable	82,094	25,243	107,337	--
Accrued wages and benefits	340	8,976	9,316	--
Accrued interest	9,570	15,455	25,025	--
Current portion of long-term debt	72,032	155,625	227,657	--
Due to other funds	2,973	6,344	9,317	--
Total Current Liabilities	167,009	211,643	378,652	--
<i>Noncurrent Liabilities</i>				
Long-term obligations, net of current portion	834,920	1,978,850	2,813,770	--
Accrued sick pay	--	34,761	34,761	--
Total Liabilities	1,001,929	2,225,254	3,227,183	--
Net Assets				
Invested in fixed assets net of related debt	1,498,706	7,102,692	8,601,398	--
<i>Restricted for:</i>				
Asset replacement - expendable	--	909,697	909,697	--
<i>Unrestricted</i>	702,341	272,769	975,110	294,096
Total Net Assets	\$ 2,201,047	\$ 8,285,158	\$ 10,486,205	\$ 294,096

City of Algonac
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
			Total Enterprise Funds	Motor Pool Fund
	Sewer	Water		
Operating Revenues				
Licenses, permits, fines, and fees	\$ 250	\$ --	\$ 250	\$ --
Miscellaneous revenue	122	7,143	7,265	--
Equipment rental	--	--	--	99,521
User charges	444,119	711,546	1,155,665	--
Asset replacement charges	--	92,154	92,154	--
Maintenance charge	--	72,099	72,099	--
Total Operating Revenues	444,491	882,942	1,327,433	99,521
Operating Expenses				
Public safety	--	--	--	31,324
Public works	--	--	--	76
Other	51,902	344,215	396,117	--
Sewer operations	243,907	--	243,907	--
Depreciation	107,524	259,597	367,121	--
Wages and benefits	41,709	304,418	346,127	--
Administrative charges	42,555	69,766	112,321	--
Total Operating Expenses	487,597	977,996	1,465,593	31,400
Operating Income (Loss)	(43,106)	(95,054)	(138,160)	68,121
Non-Operating Revenues (Expenses)				
Debt service revenue	55,939	74,772	130,711	--
Interest revenue	22,225	17,259	39,484	4,995
Debt service taxes	57	149,258	149,315	--
Interest expense	(40,500)	(59,758)	(100,258)	--
Net Non-Operating Revenues (Expenses)	37,721	181,531	219,252	4,995
Income Before Contributions and Transfers	(5,385)	86,477	81,092	73,116
Transfers from other funds	--	17,005	17,005	--
Transfers to other funds	--	--	--	(17,005)
Change In Net Assets	(5,385)	103,482	98,097	56,111
Net Assets at Beginning of Period - Restated (Note 16)	2,206,432	8,181,676	10,388,108	237,985
Net Assets at End of Period	\$ 2,201,047	\$ 8,285,158	\$ 10,486,205	\$ 294,096



**City of Algonac
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008**

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
Cash Flows From Operating Activities:				
Receipts from customers	\$ 460,086	\$ 769,694	\$ 1,229,780	\$ -
Receipts from other funds	-	-	-	301
Payments to suppliers	(286,108)	(340,313)	(626,421)	-
Payments to employees	(41,884)	(319,041)	(360,925)	-
Receipts from interfund services provided	-	-	-	99,521
Payments for interfund administrative services	(42,555)	(69,766)	(112,321)	-
Net Cash Provided By Operating Activities	89,539	40,574	130,113	99,822
Cash Flows From Noncapital Financing Activities:				
Transfer from other funds	-	17,005	17,005	-
Transfer to other funds	-	-	-	(17,005)
Net Cash Provided By Noncapital Financing Activities	-	17,005	17,005	(17,005)
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(7,639)	(289,574)	(297,213)	(21,160)
Principal paid on debt	(68,826)	(150,875)	(219,701)	-
Interest and paying agent fees paid on revenue bonds	(41,210)	(60,847)	(102,057)	(1,365)
Debt service charges	55,996	224,030	280,026	-
Payments on lease	-	-	-	(17,243)
Net Cash Used In Capital and Related Financing Activities	(61,679)	(277,266)	(338,945)	(39,788)
Cash Flows From Investing Activities:				
Interest on investments	22,225	17,259	39,484	4,995
Net Cash Provided By Investing Activities	22,225	17,259	39,484	4,995
Net Increase (Decrease) In Cash and Cash Equivalents	50,085	(202,428)	(152,343)	48,024
Cash and Cash Equivalents at July 1, 2007	506,061	626,716	1,132,777	133,850
Cash and Cash Equivalents At June 30, 2008	\$ 556,146	\$ 424,288	\$ 980,434	\$ 181,874
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:				
Operating income (loss)	\$ (43,106)	\$ (95,054)	\$ (138,160)	\$ 69,506
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</i>				
Depreciation	107,524	259,597	367,121	30,015
<i>Change in assets and liabilities:</i>				
Accounts receivable	15,595	(113,248)	(97,653)	-
Due from other funds	-	-	-	301
Prepaid expenses	(206)	(916)	(1,122)	-
Accounts payable	6,934	(1,526)	5,408	-
Due to other funds	2,973	6,344	9,317	-
Accrued wages and compensated absences	(175)	(14,623)	(14,798)	-
Net Cash Provided By Operating Activities	\$ 89,539	\$ 40,574	\$ 130,113	\$ 99,822

**City of Algonac
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008**

	<u>Agency</u>	
	<u>Tax Collection</u>	<u>Imprest Payroll</u>
Assets		
Cash and cash equivalents	\$ 263	\$ 12,512
Total Assets	<u>263</u>	<u>12,512</u>
Liabilities		
Due to other units and taxpayers	263	--
Payroll liabilities	--	12,512
Total Liabilities	<u>263</u>	<u>12,512</u>
Net Assets		
Held in Trust	<u>\$ --</u>	<u>\$ --</u>



City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,588,295	\$ 1,595,703	\$ 1,597,101	\$ 1,398
Payments in lieu of taxes	52,000	52,000	56,172	4,172
Distributions from State	389,320	426,964	427,526	562
Distributions from other governments	18,222	104,556	102,905	(1,651)
Licenses, fines, permits, and fees	75,342	91,056	98,007	6,951
Miscellaneous revenues	52,725	65,964	54,532	(11,432)
Refuse collections	216,000	215,742	216,265	523
Interest revenue	71,500	59,700	59,270	(430)
Administrative charges	166,000	129,200	128,567	(633)
Intergovernmental reimbursements	23,805	--	--	--
Contributions and reimbursements	12,625	9,450	9,450	--
Total Revenues	2,665,834	2,750,335	2,749,795	(540)
Other Financing Sources				
Transfers in	9,498	9,498	--	(9,498)
Total Revenues and Other Financing Sources	2,675,332	2,759,833	2,749,795	(10,038)
Expenditures				
Legislative	19,196	15,473	14,364	1,109
Public works	654,494	671,057	648,617	22,440
Planning and economic development	8,200	7,235	6,392	843
Insurance and other	117,542	59,338	62,577	(3,239)
City manager	89,168	89,822	89,654	168
Finance	154,894	176,032	175,525	507
Property tax service	1,965	2,323	1,468	855
City clerk	32,277	54,527	45,788	8,739
General administration	16,340	18,897	16,049	2,848
Data processing	32,680	28,895	26,338	2,557
Assessing	27,094	29,419	28,556	863
Elections	10,900	10,512	8,966	1,546
Buildings and grounds	55,482	58,182	55,781	2,401
Attorney	7,525	9,525	7,506	2,019
Police	809,140	818,706	813,457	5,249
Fire	287,603	359,916	351,526	8,390
Building inspection department	109,179	115,846	111,805	4,041
Parks and recreation	128,254	140,192	134,666	5,526
Pool	53,387	62,430	62,249	181
Community center	18,140	20,640	19,639	1,001
Total Expenditures	2,633,460	2,748,967	2,680,923	68,044
Other Financing Uses				
Transfers to other funds	10,000	10,000	10,000	--
Total Expenditures and Other Financing Uses	2,643,460	2,758,967	2,690,923	68,044
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	31,872	866	58,872	58,006
Fund Balance at Beginning of Period	902,009	902,009	902,009	--
Fund Balance at End of Period	\$ 933,881	\$ 902,875	\$ 960,881	\$ 58,006



City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Distributions from State	\$ 215,000	\$ 200,241	\$ 192,206	\$ (8,035)
Interest revenue	12,500	13,500	16,659	3,159
Total Revenues	<u>227,500</u>	<u>213,741</u>	<u>208,865</u>	<u>(4,876)</u>
Other Financing Sources	--	--	--	--
Total Revenues and Other Financing Sources	<u>227,500</u>	<u>213,741</u>	<u>208,865</u>	<u>(4,876)</u>
Expenditures				
Routine maintenance	12,144	52,144	46,058	6,086
Bridge maintenance	1,391	1,391	57	1,334
Traffic services	5,818	5,818	4,313	1,505
Winter maintenance	13,890	16,908	16,257	651
Other	20,000	20,000	9,532	10,468
Total Expenditures	<u>53,243</u>	<u>96,261</u>	<u>76,217</u>	<u>20,044</u>
Other Financing Uses	--	--	--	--
Total Expenditures and Other Financing Uses	<u>53,243</u>	<u>96,261</u>	<u>76,217</u>	<u>20,044</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	174,257	117,480	132,648	15,168
Fund Balance at Beginning of Period	398,640	398,640	398,640	--
Fund Balance at End of Period	<u>\$ 572,897</u>	<u>\$ 516,120</u>	<u>\$ 531,288</u>	<u>\$ 15,168</u>

City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Street
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Distributions from State	\$ 85,000	\$ 79,033	\$ 75,868	\$ (3,165)
Miscellaneous revenues	12,565	12,565	12,670	105
Interest revenue	9,800	10,000	10,087	87
Total Revenues	<u>107,365</u>	<u>101,598</u>	<u>98,625</u>	<u>(2,973)</u>
Other Financing Sources	--	--	--	--
Total Revenues and Other Financing Sources	<u>107,365</u>	<u>101,598</u>	<u>98,625</u>	<u>(2,973)</u>
Expenditures				
Routine maintenance	31,309	28,171	14,565	13,606
Bridge maintenance	2,068	2,068	758	1,310
Traffic services	4,792	11,285	7,921	3,364
Winter maintenance	15,364	21,300	20,362	938
Other	8,300	7,568	7,568	--
Total Expenditures	<u>61,833</u>	<u>70,392</u>	<u>51,174</u>	<u>19,218</u>
Other Financing Uses	--	--	--	--
Total Expenditures and Other Financing Uses	<u>61,833</u>	<u>70,392</u>	<u>51,174</u>	<u>19,218</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	45,532	31,206	47,451	16,245
Fund Balance at Beginning of Period	245,916	245,916	245,916	--
Fund Balance at End of Period	<u>\$ 291,448</u>	<u>\$ 277,122</u>	<u>\$ 293,367</u>	<u>\$ 16,245</u>

City of Algonac
Notes To Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF CITY OPERATIONS AND FUND TYPES: The City of Algonac, Michigan, was incorporated December 6, 1967, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

REPORTING ENTITY: The financial reporting entity consists of the primary government of the City of Algonac and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a discretely presented component unit of the City of Algonac.

JOINT VENTURES: The Downriver Recreation Commission was organized for the purpose of providing community services to include educational, vocational, and recreational aspects for the residents of the City of Algonac, Township of Clay, and the Algonac Community School System. The Commission is dependent upon these entities for its existence as they jointly provide annual financial resources for its operation. The joint venture was made March 25, 1991, pursuant to the Authority granted by the Urban Cooperation Act of 1967, being MCL 124.501 and by Authority granted by MCL 124.531.

The Commission is a separate legal and administrative entity with nine commission members, three each appointed by the City of Algonac, Clay Township, and Algonac Community Schools.

The City of Algonac appropriates funds annually to assist with the day-to-day operations of the Commission. For the year ended June 30, 2008, the City of Algonac appropriated \$40,000. Complete financial statements may be obtained from the administrative offices of the Algonac Middle School, 9185 Marsh Road, Algonac, MI 48001.



**City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED ORGANIZATIONS: The Algonac Housing Authority (AHA), is a related organization as the City Commission appoints the board of the AHA, but is not financially accountable.

There were no related party transactions between the City of Algonac and the Housing Authority for the fiscal year ended June 30, 2008.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied on July 1, and become a lien on July 1. These taxes are due on August 31, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

MAJOR AND LOCAL STREET FUNDS – The Major Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on major streets. The Local Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on local streets.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS – The Water Fund and the Sewer Fund report operations that provide services which are financed by user charges or activities where periodic measurements of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Additionally, the government reports the following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

CAPITAL PROJECTS FUND – This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

INTERNAL SERVICES FUND – This fund provides fixed assets to other departments on a cost reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts, totaling \$136.

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on an average basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost ranging from \$5,000 to \$20,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City adopted a new capital asset policy on June 17, 2008. The policy is available for review at the City office.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Infrastructure assets acquired prior to July 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Utility systems	5-50 years
Machinery and equipment	5-20 years
Vehicles	5-15 years
Infrastructure	10-20 years

CAPITALIZED INTEREST: The City capitalizes interest during the construction phase of proprietary fund assets if financed by revenue bonds. Interest is not capitalized for assets constructed with general obligation debt. There was no interest capitalized for the period.

COMPENSATED ABSENCES: The City accrues the liability for future vacation, sick, and other leave benefits that are attributable to employee services already rendered if this obligation relates to vested obligations, the payment of which is probable and can be reasonably estimated. It is the policy of the City to show unpaid vacation benefits as current, as they are payable within one year.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 1,692	\$ --
Miscellaneous services	8,422	--
Restitution	680	--
Library reimbursement	1,653	--
	<u>\$12,447</u>	<u>\$ --</u>



**City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the City to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(3), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended, of the City for these budgetary funds were adopted to the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the City Council. Actual expenditures exceeded those budgeted as follows:

<i>General Fund:</i>	
Insurance and other	\$3,239

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the City of Algonac Treasurer. Michigan Act 20 P.A. 1943 allows a city to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days
4. U.S. or agency repurchase agreements
5. Mutual funds - investments which local unit can make directly
6. Bankers' acceptances of U.S. banks
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 3: CASH AND INVESTMENTS (Continued)

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the City are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "cash and cash equivalents," "investments," and "restricted cash" as follows:

Cash - checking and on hand	\$1,986,081
- savings and cash equivalent investments	299,007
Restricted cash	736,741
Restricted nonexpendable cash	28,000
Fiduciary balance sheet	12,775
	<u>\$3,062,604</u>

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$2,183,705 of the government's bank balance of \$2,483,122 was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Insured (FDIC)</u>	<u>Uninsured and Uncollateralized</u>	<u>Carrying Amount</u>	<u>Bank Balance/ Market Value</u>
Demand deposits	\$200,000	\$2,175,462	\$2,292,914	\$2,375,462
Savings and CD's	100,000	7,660	141,407	107,660
Cash on hand	--	583	583	--
	<u>\$300,000</u>	<u>\$2,183,705</u>	<u>2,434,904</u>	<u>\$2,483,122</u>

Investments

Mutual funds - nonrisk category	627,700
GRAND TOTAL CASH AND INVESTMENTS	<u>\$3,062,604</u>

Other fund mutual fund investments are limited to those under SEC Rule 2a7 or like investment pools. In accordance with GASB Statement No. 31, these are carried at amortized cost for financial reporting purposes.

INTEREST RATE RISK: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the City made no investments that have market value risk during the current fiscal year.



**City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008**

NOTE 3: CASH AND INVESTMENTS (Continued)

CREDIT RISK: State law limits investments as stated above. The City's investment policy does not limit its investment choices beyond the statute. The authority to make investment decisions has been granted to the City Treasurer.

CONCENTRATION OF CREDIT RISK: The City places no limit on the amount the City may invest in any one issuer.

NOTE 4: RESTRICTED ASSETS AND INVESTMENTS

As of June 30, 2008, the City had the following assets restricted for specific purposes:

<i>Capital Projects Fund:</i>	
Per donor placed restriction for historical preservation	<u>\$ 228,621</u>
<i>Drug Law Enforcement Fund:</i>	
Drug law enforcement forfeitures	<u>\$ 4,330</u>
<i>Sewer Fund:</i>	
Cash restricted for debt retirement	\$ 163,742
Deposit with St. Clair County for debt retirement	30,954
Deposit with St. Clair County for Waste Water Treatment Plant	42,816
Restricted receivables	<u>18,397</u>
Total Sewer Fund	<u>255,909</u>
<i>Water Fund:</i>	
Cash restricted for asset replacement by Clay Township supply agreement	33,750
Cash restricted for debt retirement	34,904
Per ordinance 151 - cash restricted for asset replacement and debt service	299,394
Receivable from Clay Township restricted for asset replacement and debt service	609,924
Deposit with St. Clair County for debt retirement	917
Restricted receivables	<u>29,383</u>
Total Water Fund	<u>1,008,272</u>
Total Restricted Assets and Investments	<u>\$1,497,132</u>



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets:

A summary of changes in governmental fixed assets follows:

	Balance 6/30/07	Additions	Disposals	Balance 6/30/08
General Government:				
Buildings and improvements	\$ 558,590	\$ --	\$ --	\$ 558,590
Machinery and equipment	94,031	8,100	4,250	97,881
Land	310,559	--	--	310,559
Construction in progress	--	11,663	--	11,663
Public Safety:				
Buildings and improvements	19,058	--	--	19,058
Machinery and equipment	115,260	--	9,415	105,845
Vehicles	1,568,686	15,660	25,000	1,559,346
Construction in progress	--	748	--	748
Public Works:				
Buildings and improvements	322,392	--	--	322,392
Machinery and equipment	235,209	--	4,677	230,532
Vehicles	220,060	5,500	22,000	203,560
Recreation and Cultural:				
Buildings and improvements	1,608,773	--	--	1,608,773
Machinery and equipment	28,876	15,485	--	44,361
Infrastructure	116,441	--	--	116,441
Construction in progress	--	14,155	--	14,155
Streets:				
Infrastructure	1,284,187	115,740	--	1,399,927
	6,482,122	187,051	65,342	6,603,831
Accumulated Depreciation	3,354,387	234,645	65,342	3,523,690
	<u>\$3,127,735</u>	<u>(\$ 47,594)</u>	<u>\$ --</u>	<u>\$3,080,141</u>

The above amounts include land with a cost of \$310,559 not subject to depreciation.

The assets above include assets acquired through capital leases with a cost of \$51,831 and accumulated depreciation of \$25,916.



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 5: FIXED ASSETS (Continued)

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

General Government	\$ 27,812
Public Safety	47,165
Public Works	22,979
Recreation and Cultural	68,398
Streets	<u>68,291</u>
Total	<u>\$234,645</u>

The above amounts include \$10,367 amortization of capitalized leases.

Business-Type Activities Fixed Assets:

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/08</u>
Water Fund:				
Water plant, mains, hydrants, and service lines	\$12,164,760	\$217,998	\$ --	\$12,382,758
Machinery and equipment	<u>218,245</u>	<u>71,575</u>	<u>--</u>	<u>289,820</u>
	<u>12,383,005</u>	<u>289,573</u>	<u>--</u>	<u>12,672,578</u>
Sewer Fund:				
Sewer plant, mains, and service sewers	4,995,462	7,640	--	5,003,102
Machinery and equipment	<u>79,558</u>	<u>--</u>	<u>--</u>	<u>79,558</u>
	<u>5,075,020</u>	<u>7,640</u>	<u>--</u>	<u>5,082,660</u>
Total Capital Assets	17,458,025	297,213	--	17,755,238
Accumulated Depreciation	<u>5,739,296</u>	<u>367,121</u>	<u>--</u>	<u>6,106,417</u>
	<u>\$11,718,729</u>	<u>(\$ 69,908)</u>	<u>\$ --</u>	<u>\$11,648,821</u>

Depreciation for the Water Fund and Sewer Fund totaled \$259,597 and \$107,524, respectively, for the year ended June 30, 2008.

City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 6: LONG-TERM DEBT

Changes in Indebtedness by Type:

	Payable at June 30, 2007	Increase	Decrease	Payable at June 30, 2008
General Obligation:				
General obligation bonds	\$ 975,778	\$ --	\$ 68,826	\$ 906,952
Software note	19,655	--	19,655	--
Police car leases	17,243	--	17,243	--
Restitution reimbursement payable	22,064	--	6,500	15,564
Accrued sick pay	118,947	--	20,344	98,603
Total General Obligation	<u>1,153,687</u>	<u>--</u>	<u>132,568</u>	<u>1,021,119</u>
Drinking Water Revolving Fund				
Bonds	2,068,350	--	136,875	1,931,475
Revenue Bonds	217,000	--	14,000	203,000
Total Indebtedness	<u>\$3,439,037</u>	<u>\$ --</u>	<u>\$283,443</u>	<u>\$3,155,594</u>

Changes in Indebtedness by Fund:

Total Water and Sewer Fund Indebtedness	\$3,316,347	\$ --	\$240,159	\$3,076,188
Total Governmental Indebtedness	122,690	--	43,284	79,406
Total Indebtedness	<u>\$3,439,037</u>	<u>\$ --</u>	<u>\$283,443</u>	<u>\$3,155,594</u>

The following is a summary of indebtedness and annual principal and interest requirements:

Summary of Indebtedness:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
General Obligations:				
2003 Limited Tax Bonds	1	3.375-4.600%	2023	\$ 750,000
1999 Limited Tax Bonds	1	5.000-5.125	2012	156,952
Restitution Reimbursement payable	N/A	N/A	N/A	15,564
Accrued sick pay	N/A	N/A	N/A	98,603
Total General Obligations				<u>\$1,021,119</u>
Revenue Bonds – Water Supply System	1	5.00	2019	<u>\$ 203,000</u>
Drinking Water Revolving Fund Bonds	1	2.50	2020	<u>\$1,931,475</u>



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 6: LONG-TERM DEBT (Continued)

Summary of Principal and Interest Requirements:

	<u>Year Ending June 30</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Obligations	\$142,810	\$110,401	\$109,550	\$109,184	\$67,120
Revenue Bonds	25,150	25,400	25,600	25,750	25,850
Drinking Water Revolving Fund					
Bonds	<u>187,154</u>	<u>187,342</u>	<u>185,584</u>	<u>185,631</u>	<u>185,584</u>
Total Principal and					
Interest Requirements	<u>\$355,114</u>	<u>\$323,143</u>	<u>\$320,734</u>	<u>\$320,565</u>	<u>\$278,554</u>
	<u>2014-2018</u>	<u>2019-2023</u>	<u>Total</u>		
General Obligations	\$ 344,277	\$358,621	\$1,241,963		
Revenue Bonds	129,000	8,400	265,150		
Drinking Water Revolving Fund					
Bonds	<u>931,059</u>	<u>373,124</u>	<u>2,235,478</u>		
Total Principal and					
Interest Requirements	<u>\$1,404,336</u>	<u>\$740,145</u>	<u>\$3,742,591</u>		

Complete details of bonded indebtedness are found on pages 39 through 40.

Interest expense for the year was as follows:

Motor Pool Fund	\$ 1,385
Water and Sewer Funds	<u>100,258</u>
	<u>\$101,643</u>

Debt Margin:

Michigan Compiled Law limits indebtedness incurred by cities to 10% of the total state equalized valuation of the city. For the fiscal year 07/08, the state equalized value of the City of Algonac was \$151,588,547; therefore, the legal debt margin is \$15,158,855.

City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 7: INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due from other funds/component units" or "Due to other funds/component units" on the balance sheet. The amounts of interfund/component units receivables and payables are as follows:

<u>Fund/Component Unit</u>	<u>Receivable</u>	<u>Fund/Component Unit</u>	<u>Payable</u>
		Major Street Fund	\$ 2,229
		Local Street Fund	2,361
		Sewer Fund	2,973
		Water Fund	<u>6,344</u>
General Fund	<u>\$13,907</u>		<u>\$13,907</u>

The outstanding balances between funds result mainly from timing differences between the dates that interfund goods and services are provided and the date that payments between the funds are made.

The amounts payable to the General Fund from the Major and Local Street Funds, Sewer Fund, and Water Fund are for administrative charges and fringe benefit reimbursements.

NOTE 8: FUND BALANCE/RETAINED EARNINGS RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS

Water Fund:

Cash restricted for asset replacement	\$ 33,750
Per ordinance 151 – cash and receivables restricted for asset replacement	265,106
Amount receivable from Clay Township for asset replacement	609,924
Deposit with St. Clair County – Water construction	<u>917</u>
Total Water Fund Restricted Retained Earnings	<u>\$909,697</u>

General Fund:

Reserved for inventory and prepaid expense	<u>\$ 65,689</u>
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Capital Projects Fund:

Cash reserved for historical preservation per donor	<u>\$228,621</u>
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Drug Law Enforcement Fund:

Reserved for police enforcement	<u>\$ 8,693</u>
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NOTE 9: RISK FINANCING

The City of Algonac purchases insurance coverage from independent third parties and is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage during the year.



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 10: EMPLOYEE PENSION PLAN

PLAN DESCRIPTION

The City of Algonac participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

FUNDING POLICY

The City is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2008 ranged from 5.69% to 10.72%. The contribution requirements of plan members and the City are established and may be amended by the City Council, depending on the MERS contribution program adopted by the City.

ANNUAL PENSION COSTS

For the year ended June 30, 2008, the City's annual pension cost of \$89,220 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007, actuarial valuation using the entry age normal cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2006	\$142,529	100%	\$ --
2007	90,176	100	--
2008	89,220	100	--



City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008

NOTE 10: EMPLOYEE PENSION PLAN (Continued)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2003	\$2,332,706	\$2,802,226	\$469,520	83%	\$1,295,468	36%
2004	2,629,079	3,120,202	491,123	84	1,262,770	39
2005	2,904,983	3,438,326	533,343	84	1,202,466	44
2006	3,220,295	3,714,689	494,394	87	1,202,176	41
2007	3,525,763	4,097,788	572,025	86	1,174,173	49

NOTE 11: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan available to all employees, permits them to defer a portion of their current salary until future years.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the City that the City has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 12: WORKING CAPITAL

The Sewer and Water Funds have working capital balances of \$630,309 and \$1,027,606, respectively, at June 30, 2008.

NOTE 13: POSTRETIREMENT HEALTH CARE BENEFITS

The City has agreed to provide postretirement hospitalization insurance to all of its employees as follows. The City's obligations for these benefits are established by labor contracts. Currently, under these contracts, the City is responsible for 40% of the cost of these benefits for employees with 30 years of service. This plan covers approximately 38 members. Contributions for the year were \$25,000. There are currently no participants receiving benefits.

During the fiscal year ended June 30, 2007, the administration of the Retiree Health Trust Fund was transferred to the Municipal Employees' Retirement System of Michigan. The contributions to the plan amounted to \$25,000 for the period ended June 30, 2008. Other information regarding funding status is currently unavailable. This is a new plan and the City has yet to develop an actuarial study for the plan. An actuarial study will be forthcoming in future periods.

**City of Algonac
Notes To Financial Statements
(Continued)
June 30, 2008**

NOTE 14: INTERFUND AND COMPONENT UNIT TRANSFERS

<u>Transfers In</u>		<u>Transfers Out</u>	
Library Fund	<u>\$10,000</u>	General Fund	<u>\$10,000</u>
Capital Projects Fund	<u>\$41,962</u>	Sidewalk Construction Fund	<u>\$41,962</u>
Sidewalk Construction Fund	<u>\$26,646</u>	Downtown Development Authority	<u>\$26,646</u>
Water Fund	<u>\$17,005</u>	Motor Pool Fund	<u>\$17,005</u>

The above transfers were made to provide various permissible interfund subsidies and reimbursements.

The transfer from the General Fund to the Library Fund was to subsidize various budgeted expenses.

The transfer from the Sidewalk Construction Fund to the Capital Projects Fund was to close the Sidewalk Construction Fund.

The transfer from the Downtown Development Authority to the Sidewalk Construction Fund was to subsidize specific projects.

The transfer from the Motor Pool Fund to the Water Fund was to reimburse for a specific purchase.

NOTE 15: SEWAGE DISPOSAL SYSTEM AGREEMENT

In accordance with an agreement signed November 1976, the County acquired legal ownership of the City of Algonac Sewage Disposal System and, as of July 14, 1977, assumed responsibility for administering, operating, and maintaining the system. The City has agreed to pay the County charges sufficient to provide from the City's share of expenses incurred by the County and to provide for future maintenance, repairs, and replacement.

NOTE 16: WATER FUND RESTATEMENT

The fund balance of the Water Fund at July 1, 2007, has been increased by \$22,560 to reflect the correction of an overstatement of accrued sick pay at June 30, 2007.



SUPPLEMENTAL INFORMATION

**City of Algonac
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Drug Law Enforcement</u>	<u>Library</u>	<u>Sidewalk Construction</u>	<u>Capital Projects</u>	
Assets					
Cash and cash equivalents	\$ 9,231	\$ 28,838	\$ --	\$ 25,856	\$ 63,925
Restricted cash	4,330	--	--	228,621	232,951
Prepaid and other assets	--	649	--	--	649
Total Assets	\$ 13,561	\$ 29,487	\$ --	\$ 254,477	\$ 297,525
Liabilities					
Accounts payable	\$ 538	\$ 1,786	\$ --	\$ 5,198	\$ 7,522
Non-adjudicated funds	4,330	--	--	--	4,330
Total Liabilities	4,868	1,786	--	5,198	11,852
Fund Balance					
<i>Reserved for:</i>					
Historic preservation	--	--	--	228,621	228,621
<i>Unreserved</i>	8,693	27,701	--	20,658	57,052
Total Fund Balance	8,693	27,701	--	249,279	285,673
Total Liabilities and Fund Balance	\$ 13,561	\$ 29,487	\$ --	\$ 254,477	\$ 297,525



City of Algonac
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Total</u>
	<u>Drug Law Enforcement</u>	<u>Library</u>	<u>Sidewalk Construction</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>
Revenues					
Miscellaneous revenue	\$ --	\$ 32,707	\$ --	\$ --	\$ 32,707
Interest revenue	161	1,133	1,770	29,958	33,022
Total Revenues	<u>161</u>	<u>33,840</u>	<u>1,770</u>	<u>29,958</u>	<u>65,729</u>
Expenditures					
Recreation and cultural	--	39,349	--	--	39,349
Other	538	--	--	12,028	12,566
Capital outlay	--	15,485	80,214	28,086	123,785
Total Expenditures	<u>538</u>	<u>54,834</u>	<u>80,214</u>	<u>40,114</u>	<u>175,700</u>
Excess of Revenues Over (Under) Expenditures	(377)	(20,994)	(78,444)	(10,156)	(109,971)
Other Financing Sources (Uses)					
Transfers from component units	--	--	26,646	--	26,646
Transfers from other funds	--	10,000	--	41,962	51,962
Transfers to other funds	--	--	(41,962)	--	(41,962)
Net Other Financing Sources (Uses)	<u>--</u>	<u>10,000</u>	<u>(15,316)</u>	<u>41,962</u>	<u>36,646</u>
Net Change in Fund Balance	<u>(377)</u>	<u>(10,994)</u>	<u>(93,760)</u>	<u>31,806</u>	<u>(73,325)</u>
Fund Balance at Beginning of Period	9,070	38,695	93,760	217,473	358,998
Fund Balance at End of Period	<u>\$ 8,693</u>	<u>\$ 27,701</u>	<u>\$ --</u>	<u>\$ 249,279</u>	<u>\$ 285,673</u>



**City of Algonac
Combining Statement of Net Assets
Nonmajor Component Units
June 30, 2008**

	Downtown Development Authority	Total Nonmajor Component Units
Assets		
Cash and cash equivalents	\$ 29,618	\$ 29,618
Accounts and assessment receivable	(808)	(808)
Total Assets	<u>28,810</u>	<u>28,810</u>
Liabilities		
Due to other units and taxpayers	198	198
Total Liabilities	<u>198</u>	<u>198</u>
Net Assets		
Unrestricted	28,612	28,612
Total Net Assets	<u>\$ 28,612</u>	<u>\$ 28,612</u>



**City of Algonac
Combining Statement of Activities
Nonmajor Component Units
For the Year Ended June 30, 2008**

	Downtown Development Authority	Total Nonmajor Component Units
Expenses		
Other	\$ 5,119	\$ 5,119
Professional services	298	298
Community promotion	14,026	14,026
Transfers to governmental funds	26,646	26,646
Total Expenses	46,089	46,089
Program Revenues		
Charges for services	--	--
Operating grants and contributions	--	--
Capital grants and contributions	--	--
Total Program Revenues	--	--
Net Program Revenues (Expenses)	(46,089)	(46,089)
General Revenue		
Miscellaneous revenue	422	422
Interest revenue	1,776	1,776
Debt service taxes	55,177	55,177
Total General Revenues	57,375	57,375
Change in Net Assets	11,286	11,286
<i>Net Assets at Beginning of Period</i>	<i>17,326</i>	<i>17,326</i>
Net Assets at End of Period	\$ 28,612	\$ 28,612

City of Algonac
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Downtown Development Authority
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Interest revenue	\$ 700	\$ 2,000	\$ 1,776	\$ (224)
Property taxes	55,034	55,127	55,177	50
Miscellaneous revenue	500	500	422	(78)
Total Revenues	56,234	57,627	57,375	(252)
Other Financing Sources	--	--	--	--
Total Revenues and Other Financing Sources	56,234	57,627	57,375	(252)
Expenditures				
Other	2,125	2,725	5,119	(2,394)
Capital outlay	15,000	15,000	5,831	9,169
Professional services	14,132	14,335	298	14,037
Community promotion	3,700	3,700	8,195	(4,495)
Total Expenditures	34,957	35,760	19,443	16,317
Other Financing Uses				
Transfers to other funds	30,000	26,646	26,646	--
Total Expenditures and Other Financing Uses	64,957	62,406	46,089	16,317
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(8,723)	(4,779)	11,286	16,065
Fund Balance at Beginning of Period	17,326	17,326	17,326	--
Fund Balance at End of Period	\$ 8,603	\$ 12,547	\$ 28,612	\$ 16,065

City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Drug Law Enforcement
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Interest revenue	\$ 150	\$ 150	\$ 161	\$ 11
Total Revenues	<u>150</u>	<u>150</u>	<u>161</u>	<u>11</u>
Other Financing Sources	--	--	--	--
Total Revenues and Other Financing Sources	<u>150</u>	<u>150</u>	<u>161</u>	<u>11</u>
Expenditures				
Other	--	9,200	538	8,662
Total Expenditures	<u>--</u>	<u>9,200</u>	<u>538</u>	<u>8,662</u>
Other Financing Uses	--	--	--	--
Total Expenditures and Other Financing Uses	<u>--</u>	<u>9,200</u>	<u>538</u>	<u>8,662</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	150	(9,050)	(377)	8,673
Fund Balance at Beginning of Period	9,070	9,070	9,070	--
Fund Balance at End of Period	<u>\$ 9,220</u>	<u>\$ 20</u>	<u>\$ 8,693</u>	<u>\$ 8,673</u>



City of Algonac
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Library
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Miscellaneous revenues	\$ 21,000	\$ 27,000	\$ 32,707	\$ 5,707
Interest revenue	1,800	1,600	1,133	(467)
Total Revenues	<u>22,800</u>	<u>28,600</u>	<u>33,840</u>	<u>5,240</u>
Other Financing Sources				
Transfers in	10,000	10,000	10,000	--
Total Revenues and Other Financing Sources	<u>32,800</u>	<u>38,600</u>	<u>43,840</u>	<u>5,240</u>
Expenditures				
Capital outlay	4,500	22,338	15,485	6,853
Library	27,928	35,995	39,349	(3,354)
Total Expenditures	<u>32,428</u>	<u>58,333</u>	<u>54,834</u>	<u>3,499</u>
Other Financing Uses	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures and Other Financing Uses	<u>32,428</u>	<u>58,333</u>	<u>54,834</u>	<u>3,499</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	372	(19,733)	(10,994)	8,739
Fund Balance at Beginning of Period	38,695	38,695	38,695	--
Fund Balance at End of Period	<u>\$ 39,067</u>	<u>\$ 18,962</u>	<u>\$ 27,701</u>	<u>\$ 8,739</u>



**City of Algonac
Schedule of Indebtedness
June 30, 2008**

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 2003:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
3-1-03	\$ 900,000	3.400 %	2009	\$ 34,500	\$ 30,266	\$ 64,766
		3.450	2010	36,000	29,092	65,092
		3.500	2011	37,500	27,850	65,350
		3.500	2012	40,500	26,538	67,038
		3.650	2013	42,000	25,120	67,120
		3.800	2014	45,000	23,587	68,587
		3.900	2015	46,500	21,878	68,378
		4.000	2016	48,000	20,064	68,064
		4.000	2017	51,000	18,144	69,144
		4.100	2018	54,000	16,104	70,104
		4.200	2019	57,000	13,890	70,890
		4.300	2020	60,000	11,496	71,496
		4.400	2021	63,000	8,916	71,916
		4.500	2022	66,000	6,144	72,144
		4.600	2023	69,000	3,175	72,175
Total Sewer Disposal System 2003 Bonds				750,000	\$ 282,264	\$ 1,032,264

Principal due April 1

Interest due April 1 and October 1

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 1999:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
11-1-99	\$ 368,496	5.000 %	2009	\$ 37,532	\$ 7,948	\$ 45,480
		5.000	2010	39,238	6,071	45,309
		5.125	2011	40,091	4,109	44,200
		5.125	2012	40,091	2,055	42,146
Total Sewer Disposal System 1999 Bonds				156,952	\$ 20,183	\$ 177,135

Principal due April 1

Interest due April 1 and October 1



**City of Algonac
Schedule of Indebtedness
June 30, 2008**

Water Supply System City of Algonac Bonds - Series 1979:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
8-6-79	\$ 410,000	5.000 %	2009	\$ 15,000	\$ 10,150	\$ 25,150
		5.000	2010	16,000	9,400	25,400
		5.000	2011	17,000	8,600	25,600
		5.000	2012	18,000	7,750	25,750
		5.000	2013	19,000	6,850	25,850
		5.000	2014	20,000	5,900	25,900
		5.000	2015	21,000	4,900	25,900
		5.000	2016	22,000	3,850	25,850
		5.000	2017	23,000	2,750	25,750
		5.000	2018	24,000	1,600	25,600
		5.000	2019	8,000	400	8,400
Total Water Supply System 1979 Bonds				203,000	\$ 62,150	\$ 265,150

Principal due March 1

Interest due March 1 and September 1

Drinking Water Filtration System City of Algonac Bonds -Series 1998:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
9-29-98	\$ 7,830,600	2.500 %	2009	\$ 140,625	\$ 46,529	\$ 187,154
		2.500	2010	144,375	42,967	187,342
		2.500	2011	146,250	39,334	185,584
		2.500	2012	150,000	35,631	185,631
		2.500	2013	153,750	31,834	185,584
		2.500	2014	157,500	27,943	185,443
		2.500	2015	163,125	23,935	187,060
		2.500	2016	166,875	19,810	186,685
		2.500	2017	170,625	15,592	186,217
		2.500	2018	174,375	11,279	185,654
		2.500	2019	180,000	6,849	186,849
		2.500	2020	183,975	2,300	186,275
Total Drinking Water System 1998 Bonds				1,931,475	\$ 304,003	\$ 2,235,478

Principal due April 1

Interest due April 1 and October 1

Total Bonded Indebtedness

3,041,427

Restitution Reimbursement Payable:

Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
\$ 15,564	- %	As collected	\$ 15,564	\$ -	\$ 15,564
TOTAL INDEBTEDNESS			\$ 3,056,991		



**City of Algonac
Schedule of Code Enforcement Allocation
Pursuant to Public Act 245 of 1999
For the Year Ended June 30, 2008**

Code Enforcement Revenues:

Building	\$ 6,768
Electrical	5,496
Mechanical	4,519
Plumbing	2,661
Rental inspections	1,250
	<hr/> 20,694
Building department expenditures	(111,805)
	<hr/>
<i>Net Excess of Expenditures Over Revenues for Code Enforcement at June 30, 2008</i>	<i>\$ (91,111)</i>





**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 11, 2008

Honorable Mayor and City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CITY OF ALGONAC, as of and for the year ended June 30, 2008, which collectively comprise the City of Algonac's basic financial statements and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Algonac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Algonac's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Algonac's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Algonac's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Algonac's financial statements that is more than inconsequential will not be prevented or detected by the City of Algonac's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Deficiency:

The City's finance staff has not yet developed the requisite expertise require to assure that the City's financial presentations are in accordance with generally accepted accounting principles without the assistance of the City's auditors. This is primarily a result of inexperience in practice, and has improved significantly over the past year. However, as of the date of our examination, the staff had not yet developed sufficiently to reasonably assure that a material misstatement could not occur and remain undetected without the assistance of the City's outside auditors.

Management's Response:

Staff will continue to attend training seminars to gain a better understanding and the experience needed to address this concern. Also, more time will be dedicated to review of financial reports on a more regular basis.

Deficiency:

The City's procedures governing adjusting journal entries does not provide for approval of the entries by qualified personnel other than the person creating the entry.

Management's Response:

Due to limited staffing, a correction to this procedure is challenging. Training to other employees of the City in governmental accounting would be needed to have a second qualified person on staff to approve adjusting journal entries.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Algonac's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

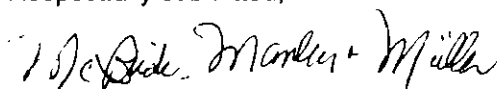
As part of obtaining reasonable assurance about whether the City of Algonac's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described above.

We noted certain matters that we reported to management of the City of Algonac in a separate letter dated November 11, 2008.

The City of Algonac's response to the findings identified in our audit follows the deficiencies noted above. We did not audit the City of Algonac's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



MCBRIDE, MANLEY & MÜLLER P.C.
Certified Public Accountants





McBride, Manley & Müller P.C.

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

November 11, 2008

Honorable Mayor and City Council
City of Algonac
Algonac, Michigan 48001

Honorable Members:

We have examined the financial statements of the City of Algonac for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PERMITS

During our examination, we noted one instance of permit revenue not being posted to the correct revenue account. We suggest that care be taken to assure proper posting of revenues.

PURCHASES

We found an instance where the memo given to the Council for accounts payable approval did not agree to the total expenditures. The check list given to Council was correct; however, it is important to verify that all information is accurate.

WATER AND SEWER BILLING

During our audit, we discovered that the electronic meter reading system does not always pick up all the digits from the reading amount. The clerk must then use the manual book to correct the meter reading. In one instance, the manual reading was recorded incorrectly. The City is aware of the issue with the electronic readings and is attempting to correct the matter. As the City must rely on the manual books in some situations, care must be taken to properly record the usage amounts.

We also noted that the fee schedule indicated a maintenance fee per unit. However, the correct charge should be per bill. The City is aware of this and the verbiage on the fee schedule will be corrected.

During our examination, we discovered one instance of an incorrect meter size recorded in the manual books. We also noted an instance where the meter size was not noted. The manual books are utilized to verify customer readings and charges and should be properly maintained.

During one month, the reports in the Billing Register did not match the postings to the General Ledger. Upon further review, it appears that the reports were generated before all the information was finalized. It is important to assure that the records kept properly reflect the correct information for the period.

JOURNAL ENTRIES

During our testing, we noted that sufficient back up was not readily available for all journal entries. We also noted that some entries did not contain an adequate explanation in the system. We suggest that copies of all relevant information pertaining to the journal entries be kept in the journal entry book. We also suggest that a more detailed explanation be recorded for all entries.

We also noted that the City does not currently have qualified personnel to approve the posting of adjusting journal entries other than the creator of the entry.

PAYROLL

During our audit, we discovered that there were not employee authorizations for all withholding amounts. It is important that written authorizations from employees be retained for all payroll deductions.

It was brought to our attention by the City that an employee's contract did not contain the proper verbiage regarding withholdings for retirement. Therefore, there was no authorization on file. The City also discovered that inadequate contributions had been made for this plan. The City is correcting this issue.

ACCOUNTS PAYABLE

During our examination, we found an invoice that was not posted to the proper period. We recommend that the posting date be reviewed to assure proper recording of invoices.

WATER USAGE CREDITS

During our audit, it was brought to our attention that it has become common practice for the City to authorize a water usage credit for residents to fill swimming pools. We found no evidence authorizing this type of credit. We recommend that official authorization regarding the issuance of these credits be addressed by the City Council.

WATER PLANT COMPENSATION

During our examination, we noted that the water plant employees weekly pay does not always reflect the actual hours worked. The employees are banking extra time worked to be utilized during weeks when they work less than 40 hours. We found no evidence authorizing the use of compensating time for water plant employees. We recommend that Council review the authorization of utilizing compensating time. We also recommend that that City obtain legal opinion regarding Michigan labor laws pertaining to the payment of overtime for those weeks that employees work in excess of 40 hours.

ITEMS FROM PREVIOUS LETTER

PERMITS

During our testing, we discovered that the correct amount was not charged per the fee schedule for a permit that was issued. It is important that the applicable fee schedule be followed for all permits issued. We suggest that care be taken to properly calculate all permit fees.



CONCLUSION

This report is intended solely for the information and use of the City Council, management, and others within the City. The restriction is not intended to limit the distribution of this report which is a matter of public record.

We would like to express our appreciation and thanks to the City officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants

